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Terry E. Branstad · Governor
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Departmental Background Memorandum

To: Members of the Iowa General Assembly and Staff

**From: Terry Rich, Mary Neubauer and Rob Porter
Iowa Lottery**

Date: Nov. 23, 2015

**Re: Proposed 2016 Code Change To Allow Continued Use Of Lottery
Vending Machines/Self-Service Kiosks**

The Iowa Lottery believes that a change in state law is necessary for it to continue to utilize vending machines/self-service kiosks in the sale of its products, as it has done since 1991. The machines, which are installed within businesses in locations monitored by retail staff, serve as a convenience to both players and retailers, allowing players to complete purchases on their own through self service.

Today, lottery pull-tab games in Iowa are sold exclusively through vending machines, while vending machines for instant-scratch games, the lottery's leading sales product, are in use in about 10 percent of lottery retail locations.

The vending machines that the Iowa Lottery currently has in the field are 10 years old and in need of replacement. The lottery's current contract for maintenance on the machines expires in September 2016. Like any mechanical device, they will only last so long, and some parts for the machines are no longer being manufactured. On the plus side, by purchasing its current machines in 2004 rather than entering into a traditional six-year lease agreement, the lottery has been able to extend the number of years it has had the equipment in operation, producing cost savings during that time.

The revenues and proceeds generated through the use of lottery vending machines are significant, and as we have stated, the lottery believes that a change in state law is necessary for it to utilize vending equipment with today's touch-screen technology. The lottery therefore requests that language be added to Iowa Code Chapter 99G in 2016 to define and allow use of lottery self-service kiosks.

As background, lottery tickets are currently sold at about 2,400 retail locations in Iowa, with scratch-ticket vending machines in use in about 260 of those locations and pull-tab vending machines installed in about 800 locations. The lottery utilizes cost-benefit analysis in the operation of its vending equipment, installing machines in those locations where it believes their use will maximize sales and build proceeds by more than covering the cost to operate the equipment.

Scratch tickets are the lottery's top-selling product, accounting for 65 percent of total lottery sales in fiscal year 2015. Pull-tabs accounted for 5 percent of lottery sales in FY 2015, with lotto games achieving 30 percent of total sales.

Iowa retail locations with scratch-ticket vending machines in operation achieved \$21.6 million in sales of that product in FY 2015 (10 percent of total scratch-ticket sales in Iowa). Lottery figures indicate that sales of about \$14.5 million -- or nearly 70 percent of scratch-ticket sales at those locations -- came from vending machines.

Meantime, sales of pull-tab tickets, which are distributed solely through vending machines, totaled \$16 million in FY 2015.

With advances in technology, the newest self-service machines of all types -- including lottery vending machines -- now utilize touch screens, not push buttons (see attached photos). Everything from vending machines for beverages and snacks to airline check-in kiosks, ATMs, self-checkout lanes and movie-rental stations feature touch-screens that customers use to complete their transactions.

The new vending machines available to lotteries today for scratch tickets create a complication with Iowa law. Because the vending machines have a touch screen, they meet the legal definition of a monitor vending machine, which relates back to a program that was known as TouchPlay when it was in operation. Code language passed in 2006 defines monitor vending machines and prohibits their operation in 99G.3(7), 99G.3(9) and 99G.30A.

The lottery is cognizant of the monitor vending machine prohibition and does not wish to alter it. Rather, we simply want to allow continued use of traditional lottery vending machines, which would be owned or leased by the lottery. To make our intent clear, we do not propose changing any Code references to monitor vending machines. Rather, we propose adding a new section to Iowa Code to define lottery self-service kiosks and allow their use in Iowa.

Today's Vending Equipment & Self-Service Kiosks Utilize Touchscreens



Touch-screen machine dispensing fountain beverages and ice at a restaurant



Touch-screen machine vending bottled beverages



And a Pepsi touch-screen vending machine (It's not all Coke! ☺)



Touch-screen machine vending snacks



Touch-screen kiosks used by retail customers for gift registries



Self-service kiosks with touch screens for airline tickets



Self-checkout lanes with touch screens at retail store



Self-service kiosk with touch screen to rent a movie



Automated teller machine (ATM) with touch screen for banking transactions

Current Iowa Lottery Vending Machines purchased in 2004



Instant-scratch ticket
vending machine



Pull-tab ticket vending machine

Vending Machines/Self-Service Kiosks Now Available For Lease/Purchase By Lotteries



Touch-screen vending machine that
dispenses lotto and scratch tickets,
currently in use in Pennsylvania



Touch-screen vending machine that dispenses
lotto tickets, currently
in use in North Dakota